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UNCLAS SECTION 01 OF 03 RABAT 000571

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DEPT FOR NEA/MAG, EB/IFD/OIA and EB/TPP/BTA  
STATE PLEASE PASS TO USTR DOUG BELL AND MARY LATIMER  
USDOC FOR ITA/MAC/ONE ROTH  
TREASURY FOR OASIA  
USDA FOR ITP PAT SHIEKH AND BARBARA CHATTIN

E.O. 12958: N/A  
TAGS: [EINV](#) [ETRD](#) [EFIN](#) [EAGR](#) [PGOV](#) [MO](#)  
SUBJECT: PREPARING FOR THE ANNUAL REVIEW OF THE FTA

REF: A. RABAT 00304  
[B](#). RABAT 00405  
[C](#). Casablanca 00057

Sensitive but unclassified. Please protect accordingly.

[1](#)1. (U) Summary and action request: With the envisioned May/June time frame for the first annual review of the bilateral Free Trade Agreement fast approaching, post recommends renewed engagement in coming months with the GOM on key outstanding issues from the first year of the agreement, including transshipment, agricultural quotas, and accelerated reduction of textile tariffs. Moroccan thinking about the overall "Joint Committee" meeting is still in its early stages, but our contacts believe that the formal meeting should "accentuate the positive" and leave detailed discussion of these issues to preparatory meetings, preferably of the Agricultural and Market Access committees provided for in the Agreement. Moroccan readiness to celebrate and give a high profile to the anniversary is clouded by discrepancies in bilateral trade data: while U.S. statistics show an 18 percent increase in Moroccan exports to the U.S. to USD 521 million, Moroccan trade figures show a decline over 2005 figures to USD 250 million. We are working with our Moroccan counterparts to understand and explain this divergence. End Summary.

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First Joint Committee Meeting Since Implementation  
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[1](#)2. (SBU) Econ Counselor and Econoff met on March 26 with the MFA's FTA expert Houda Marrakchi to follow up on her recent contacts with USTR and discuss preparations for the first Joint Committee meeting. Marrakchi stressed that she has not yet received guidance from Minister-Delegate Fassi-Fihri, but anticipated that he would lead the Moroccan delegation. Three locations were mentioned as possible venues: Washington, DC; Rabat, Morocco; and North Carolina. Although Washington would be the most convenient for the U.S. delegation, Marrakchi agreed that the event would not receive the same degree of publicity as it would in Morocco. North Carolina was suggested because of an upcoming MEPI-funded Moroccan textile sourcing mission there in June, which the Joint Committee could build upon. Regardless of the location, Marrakchi agreed that approximately 45-days notice would be required to properly coordinate the meeting.

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Accentuating the Positive  
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¶3. (SBU) Marrakchi emphasized her belief that the Joint Committee meeting should accentuate the positive, and leave areas of disagreement to be addressed by technical committees and ongoing informal discussions. She expressed hope that difficult issues could be considered in the run-up to the annual review by the technical committees created by the agreement: i.e., the Market Access Committee could consider transshipment, GSP preferences, and accelerated reduction of textile tariffs, while the agricultural committee could address the full range of agricultural issues and build on recent video-conferences between U.S. and Moroccan officials that have focused on wheat quota issues.

¶4. (SBU) Marrakchi did flag one concern that she indicated might influence how high a profile Morocco wishes to accord the anniversary event: Moroccan trade figures differ significantly from U.S. trade data. Far from showing an increase in Moroccan exports to the U.S. (U.S. trade data compiled by OTII/Dept of Commerce show Moroccan exports to the U.S. increased 18 percent to USD 521 million), Moroccan data compiled by the Office des Changes shows 2006 Moroccan exports to the U.S. below USD 250 million, slightly below their 2005 level. Marrakchi acknowledged that the Office des Changes data was contrary to Ministry of Industry data that showed Moroccan textile exports to the U.S. in 2006 increased 52 percent over 2005.

¶5. (SBU) Comment: Post believes the large disparity in trade data reflects how Moroccan customs classifies Moroccan goods that are shipped to European distributors before transshipment to the U.S. Europe remains Morocco's principal trading partner and the majority

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of Moroccan industrial goods are shipped to European distributors. Even though these goods eventually arrive in the U.S., Moroccan customs classifies the commerce as between Morocco and Europe. End Comment.

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Key Issues  
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¶6. (SBU) The differing trade figures highlight one of the most significant differences of interpretation in the agreement: namely, what constitutes permissible transshipment under Chapter 5 "rule of origin" provisions. Morocco continues to hew to a restrictive interpretation, whereby transshipment via European ports is permissible, the shipment must be dispatched following an order by a Moroccan customer and cannot be pre-staged by U.S. exporters in European facilities. In our March 26 meeting, Marrakchi argued that the limiting provisions were introduced by U.S. negotiators, and that Moroccan officials did not believe the text of the agreement supported the U.S. interpretation, whereby transshipment was permissible so long as a product does not enter into commerce or advance in value.

¶7. (SBU) Although Morocco's Parliament passed legislation in December 2005 (Law 31/05) that fulfilled its intellectual property commitments under the FTA, enforcement of the provisions remains in issue. Recently, Procter and Gamble North West Africa, which markets a product called "Always," reports difficulty in blocking counterfeit goods from entering Morocco and that the Moroccan Trademark Office (OMPIC) has issued trademarks for counterfeit products marketed as "All Well's." While post continues to address these instances on a case-by-case basis, Moroccan enforcement of the FTA's IPR provisions remains an issue, as reported in Ref C.

¶8. (SBU) If more liberal interpretation of transshipment provisions and effective IPR protection are key U.S. concerns, Morocco remains focused on its loss of GSP preferences for certain textile and agricultural products and its desire to accelerate reduction of tariffs on textile inputs. In clarifying the Moroccan desire to accelerate the FTA's tariff reduction schedule, Marrakchi explained that between the end of FTA negotiations and its entry into force,

Morocco had made the reduction proposal to both the U.S. and the EU.

While the U.S. has not formally responded, the EU did so immediately, and reached agreement with Morocco on a more preferential tariff schedule. Marrakchi argued that as a result many categories of U.S. raw goods are less competitive than their EU counterparts.

¶9. (SBU) Marrakchi also clarified the Moroccan desire to restore GSP benefits for certain Moroccan products, while admitting Morocco could not agree to reciprocal treatment. She explained that Morocco is not afraid of U.S. products entering Morocco in the affected categories, but is afraid that the EU will seek to take advantage of any concession Morocco accords the U.S. Marrakchi suggested that these issues, together with other market access issues, be addressed by a meeting of the agreement's market access committee in the run-up to the Joint Committee meeting.

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Opaque Moroccan Wheat Quota Administration  
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¶10. (SBU) As reported in Ref B, Moroccan implementation of wheat Tariff Rate Quotas (TRQ) continues to hinder U.S. exports. At issue is agreement on the timing and method for calculating the annual size of the TRQ, Morocco's failure to publish a schedule of tenders for use by both importers and exporters, the country's failure to re-tender unallocated quota from previous tenders, and the GOM's failure to accept all bids from importers who are willing to pay the negotiated duty under the TRQ. Marrakchi commented that Morocco's stance on re-tendering is unlikely to change, as it is also the approach applied under its agreement with the European Union. She agreed, however, that it would be useful for the formal Agricultural Committee envisioned by the agreement to meet in the near future to consider the full range of outstanding agricultural issues.

¶11. (SBU) Comment and action request: The Moroccan public is still largely unfamiliar with the U.S.-Morocco FTA, Moroccan economists

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remain largely undecided on its utility, and Moroccan businesses are just beginning to learn how to exploit it. We have launched an aggressive public campaign to highlight the positive results of the first year of the agreement, as reflected in American statistics. Nonetheless, respected Moroccan business journals continue to publish anti-FTA articles and will most certainly use the misleading Moroccan Office des Changes export statistics to their editorial advantage. As the Moroccan bureaucracy increasingly focuses on the Joint Committee meeting, we believe now is the moment to renew our engagement with Moroccan counterparts on the nagging issues outlined above, and to ensure that the Joint Committee meeting itself retains the positive focus both sides desire. End Comment.

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